

Before the
Federal Communications Commission
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)	
)	
Federal-State Joint Board on)	CC Docket No. 96-45
Universal Service)	
)	
Forward-Looking Mechanism)	CC Docket No. 97-160
For High Cost Support For)	
Non-Rural LECs)	
)	APD No. 98-1
)	DA 98-1055

REPLY

BellSouth Corporation, on behalf of itself and its affiliated companies (hereinafter "BellSouth"), submits these reply comments in the above-referenced proceeding. Specifically, this filing rebuts certain claims made by AT&T Corp. ("AT&T") in its comments of June 25, 1998.¹ AT&T has improperly chosen this forum to press its case for adoption of the HAI model as the Federal mechanism to be applied in universal service cost studies. Moreover, AT&T seeks to foreclose state selection of any other cost model in clear contravention of this Commission's earlier direction. Finally, AT&T is attempting to override the reasoned decisionmaking of state regulators who have heard and rejected the arguments now renewed in its comments. For these reasons the Commission should disregard AT&T's claims and approve the state cost studies which have been submitted for its review.

¹ In the Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Comments of AT&T Corp. on State Universal Service Cost Studies*, June 25, 1998.

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DISCUSSION

AT&T's objective in this proceeding is twofold: (1) to secure the compulsory use of the HAI Model for determining universal service costs; and (2) to require uniform application of input values satisfactory to itself, notwithstanding the categorical rejection of these inputs by some state regulators. AT&T's attempt to impose its worldview on state commissions should not be countenanced. Instead, the Commission should give appropriate weight to those factual determinations reached by state regulators in the course of protracted cost proceedings.

AT&T's claims notwithstanding, the Commission did not mandate use of a particular cost model by those states electing to submit universal service studies. Instead, state regulators were given discretion in their choice of methodology, provided the method chosen was also used to compute intrastate support levels and provided further that it otherwise complied with requirements of the *Universal Service Report and Order*.² Moreover, as AT&T well knows, the Commission is continuing to evaluate the HAI and BCPM models and has made no final selection of cost methodology to be employed in the Federal mechanism. These circumstances offer further reason to accord latitude to the states in their own choice of cost model.³

² Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Report and Order*, 12 FCC Red 8776 (1997). "As long as the state uses the same cost study as the basis for computing the cost of providing supported services in the state program, and the cost study is otherwise consistent with the criteria for cost studies described in para. 250 of the *Order*, that state cost study can also be submitted to compute federal support." Public Notice, CC Docket Nos. 96-45 and 97-160, *Frequently Asked Questions on Universal Service Support for Non-Rural Carriers Serving Rural, Insular, and High Cost Areas*, DA 97-2383, released November 12, 1997.

³ BellSouth and other BCPM supporters have demonstrated the merits of that model in a series of formal filings and *ex parte* contacts with the Commission. See, e.g., Forward-Looking Mechanism for High Cost Support for Non-Rural LECs, CC Docket No. 97-160, *Joint Comments*, August 8, 1997; *Joint Reply*, August 18, 1997; *Joint Comments*, September 2, 1997; *Joint Reply*, September 10, 1997; *Joint Comments*, September 24, 1997; *Joint Reply*, October 3, 1997; as well as *ex parte* meetings which occurred on January 9, 1997; March 3, 1998; and April 9, 1998. More recently, Sprint has shared with Commission staff its findings related to an error in the distribution plant module of HAI, resulting in significant understatement of distribution plant requirements for provisioning universal service.

The issues raised by AT&T in its comments have already been presented to the state regulators in those states filing cost studies and duly considered by them. AT&T is merely attempting to secure through the intervention of this Commission a result which its evidentiary showing could not obtain in the state proceedings. A case in point is the rejection by North Carolina and South Carolina of the AT&T-sponsored Hatfield model. As the record in these proceedings makes clear, both commissions concluded that the HAI Model did not adequately recognize state-specific operating conditions and demographic patterns and found the BCPM more responsive in these particulars.⁴ These findings are grounded upon the record, are without obvious error, and accordingly merit considerable deference by the Commission. Finally, it is

⁴ "The Public Staff stated that it believes the BCPM method of locating customers is more appropriate than the Hatfield method for FLEC study purposes. The Public Staff stated that this conclusion is bolstered by the fact that, once the Hatfield Model establishes clusters based on geocoded data, it disregards the data when it places customers throughout the clusters and actually models the facilities...[T]he Commission believes that the arguments advanced by the Public Staff tip the balance in favor of the BCPM. In particular, the Commission has concerns regarding the geocoding method used by the Hatfield Model 5.0 and believes that the customer location methodology used by the BCPM is more appropriate and better suited to the rural areas of North Carolina where it would be expected that many of the high cost areas are located."

North Carolina Utilities Commission, In the Matter of Establishment of Universal Support Mechanisms Pursuant to Section 254 of the Telecommunications Act of 1996, *Order Adopting Forward-Looking Economic Cost Model and Inputs*, Docket No. P-100, Sub 133b, April 20, 1998, p. 15.

South Carolina's order rejecting the Hatfield Model contains the following observation:

"No witness other than AT&T's Mr. Wells offered testimony on how the HM 5.0a inputs recommended for use in South Carolina were developed...According to Mr. Wells, the outside plant inputs for HM 5.0a were developed by a team of 'independent' experts who used their collective outside plant expertise and experience to develop the values. However, none of the team's opinions concerning engineering inputs were based on South Carolina-specific information. According to Mr. Wells, the team's 'assumptions and input values are what we would call national values.' Mr. Wells admitted that not only did his team not use South Carolina-specific information in forming their opinions, they did not contact contractors in South Carolina or check material prices in this State to verify if their assumptions were correct. Finally, Mr. Wells conceded that he could offer no personal knowledge of the origin of many of the outside plant inputs because they were developed prior to his joining the team."

Public Service Commission of South Carolina, Proceeding to Establish Guidelines for an Intrastate Universal Service Fund, *Order on Universal Service Cost Models*, Docket No. 97-239-C, Order No. 98-322, May 6, 1998, p. 62 [citations omitted].


disingenuous of AT&T to attack decisions in the Federal forum which it has implicitly or explicitly accepted in the state proceeding.⁵

CONCLUSION

AT&T's comments provide no reasonable basis for rejecting the cost methodology adopted by submitting states to implement universal service requirements. These cost studies possess a reasonable evidentiary foundation, display no apparent error and should be accorded a presumption of legitimacy by the Commission. Accordingly, BellSouth renews its request that the Commission approve cost models submitted by Kentucky, Louisiana, North Carolina and South Carolina and further that the Commission waive the use of prescribed lives and salvage values to calculate depreciation expenses upon an appropriate evidentiary showing.

Respectfully submitted,

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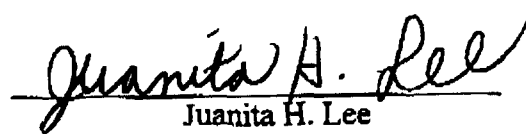
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⁵ Compare AT&T's June 25 comments before the FCC regarding the cost of capital adopted in Kentucky ("[T]he Commission should require Kentucky (10.3%)...to justify the higher cost of capital...or, instead, to rerun the HAI Model...using a 10.01% cost of capital") with its representation a scant one day earlier to the Kentucky Public Service Commission ("The Commission properly could conclude that...the appropriate forward-looking cost of capital would be 10.3%"). Kentucky Public Service Commission, In the Matter of Inquiry into Universal Service and Funding Issues, Administrative Case No. 360, *AT&T's Opposition to GTE's Petition for Rehearing*, June 24, 1998, p. 8.

CERTIFICATE OF SERVICE

I do hereby certify that I have this 9th day of July 1998 served the following parties to this action with a copy of the foregoing REPLY by hand delivery of by placing a true and correct copy of the same in the United States Mail, postage prepaid, addressed to the parties listed on the attached service list.



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